

**REPORT OF THE AUDIT OF THE  
MERCER COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2005**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE MERCER COUNTY SHERIFF**

**For The Year Ended  
December 31, 2005**

The Auditor of Public Accounts has completed the Mercer County Sheriff's audit for the year ended December 31, 2005. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees decreased by \$12,528 from the prior year, resulting in excess fees of \$6,955 as of December 31, 2005. Revenues increased by \$88,769 from the prior year and expenditures increased by \$101,297.

#### **Report Comments:**

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff's Office Should Improve Internal Controls Over Gasoline Purchases

#### **Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Trisler, Mercer County Judge/Executive  
Honorable Ralph Anderson, Mercer County Sheriff  
Members of the Mercer County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Mercer County, Kentucky, for the year ended December 31, 2005. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2005, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 14, 2006 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable John Trisler, Mercer County Judge/Executive  
Honorable Ralph Anderson, Mercer County Sheriff  
Members of the Mercer County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff's Office Should Improve Internal Controls Over Gasoline Purchases

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Mercer County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
September 14, 2006



MERCER COUNTY  
RALPH ANDERSON, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		\$	27,161
State Fees For Services:			
Finance and Administration Cabinet	\$	10,160	
Fees for Services		39,254	
Cabinet For Human Resources		<u>3,379</u>	52,793
Circuit Court Clerk:			
Sheriff Security Service		13,529	
Fines and Fees Collected		1,250	
Court Ordered Payments		<u>4,000</u>	18,779
Fiscal Court			78,997
County Clerk - Delinquent Taxes			4,591
Commission On Taxes Collected			289,859
Fees Collected For Services:			
Auto Inspections		4,681	
Accident and Police Reports		702	
Serving Papers		21,187	
Carrying Concealed Deadly Weapon Permits		9,495	
Add-On Fees		30,481	
Transporting Prisoners		5,705	
Miscellaneous		<u>4,169</u>	76,420
Interest Earned			2,464
Borrowed Money:			
State Advancement		180,000	
Bank Note		<u>25,000</u>	<u>205,000</u>
Total Revenues			<u>756,064</u>

The accompanying notes are an integral part of this financial statement.

MERCER COUNTY  
 RALPH ANDERSON, SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2005  
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	340,997	
KLEFPF		27,387	

Contracted Services-

Advertising		264	
Tax Bill Preparation		5,433	

Materials and Supplies-

Office Materials and Supplies		5,699	
Uniforms		1,430	

Auto Expense-

Gasoline		28,756	
Maintenance and Repairs		14,844	

Other Charges-

Dues		652	
Postage		5,307	
Officer Supplies		5,732	
Transporting Prisoners		3,720	
Fiscal Court Fees		11,170	
Executions		3,871	
Carrying Concealed Deadly Weapon Permits		7,090	
Miscellaneous		1,880	

Capital Outlay-

Office Equipment		7,796	\$	472,028
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Debt Service:

State Advancement		180,000		
Notes		25,000		
Interest		219		205,219

Total Expenditures

\$ 677,247

Net Revenues

\$ 78,817

Less: Statutory Maximum

71,862

Excess Fees Due County for 2005

6,955

Payment to Fiscal Court - March 10, 2005

6,800

Balance Due Fiscal Court at Completion of Audit

\$ 155

\* Note: The Sheriff presented a check to the County Treasurer  
 for the balance due Fiscal Court on September 14, 2006.

The accompanying notes are an integral part of this financial statement.

MERCER COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2005

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MERCER COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2005  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of December 31, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MERCER COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2005  
(Continued)

Note 4. Lease

The office of the Sheriff was committed to a lease agreement with Bamill, LLC for a digital copier. The agreement requires a monthly payment of \$184 for 36 months to be completed on August 15, 2007. The total remaining balance of the agreement was \$3,487 as of December 31, 2005.

Note 5. Drug Forfeiture Account

The Mercer County Sheriff's office maintains a Drug Forfeiture Account with State Bank & Trust Company. This account holds money confiscated during drug arrests and does not have to be included in the Sheriff's excess fee calculation. The Drug Forfeiture account funds may be used for drug-related law enforcement. The balance in the fund at the beginning of the year was \$3,591. Receipts for 2005 totaled \$10 and expenditures totaled \$2,722. The balance at December 31, 2005 was \$879.

Note 6. Grant Account

The Mercer County Sheriff's office received a \$5,000 grant during the year ended December 31, 2004 from Purdue Pharma Technologies. Grant proceeds are to be used for conducting Rx drug investigations with the primary focus on the abuse and diversion of OxyContin® and does not have to be included in the Sheriff's excess fee calculation. The balance in this fund at the beginning of the year was \$5,000. Receipts for calendar year 2005 totaled \$4,900 and expenditures totaled \$9,825. The unexpended grant balance was \$75 as of December 31, 2005.

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## COMMENTS AND RECOMMENDATIONS





MERCER COUNTY  
RALPH ANDERSON, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2005

STATE LAWS AND REGULATIONS:

NONE

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should implement procedures to require a restrictive endorsement be placed on incoming checks as soon as they are received.
- The Sheriff should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. The Sheriff should also compare the salaries listed on the quarterly report to the individual earnings records. Any differences should be reconciled. The Sheriff could document this by initialing the quarterly financial report.
- The Sheriff should periodically compare invoices to payments. The Sheriff could document this by initialing the invoices.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

*Sheriff's Response:*

*We will continue to try and improve our system.*

The Sheriff's Office Should Improve Internal Controls Over Gasoline Purchases

Gasoline purchases made during 2005 totaled \$28,756. Invoices for these purchases were examined to determine if these purchases were for official business of the Sheriff's office. Only \$14,015 of these purchases had proper identification, leaving \$14,741 of unsubstantiated gasoline purchases. Of this amount, \$3,838 was for gasoline purchased in bulk and stored in a tank maintained at the County Road Department for the use of the Sheriff and his deputies. In order to improve internal controls, we recommend that future gasoline purchases include the signature of the individual making the purchase, along with the license plate number, unit number, and mileage of the vehicle. The Sheriff should also require a log be maintained at the Road Department to provide proper documentation as noted above.

MERCER COUNTY  
RALPH ANDERSON, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2005  
(Continued)

INTERNAL CONTROL – REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:  
(Continued)

The Sheriff's Office Should Improve Internal Controls Over Gasoline Purchases (Continued)

*Sheriff's Response: My deputies use a fuel card at CITGO Service, similar to a credit card. This card does not provide mileage information for recording purposes.*

Auditor's Reply: The Sheriff's Office, regardless of the method of fuel purchase, could maintain a log and provide it for recordkeeping purposes.

PRIOR YEAR:

The Sheriff's Office Should Deposit Money Collected From The Sale Of Calendars Into An Official Bank Account - This comment has been corrected.

The Sheriff's Office Should Turn Over Vending Machine Commissions To The County Treasurer - This comment has been corrected.

The Sheriff's Office Should Deposit Receipts On A Daily Basis - This comment has been corrected.

The Sheriff's Office Lacks Adequate Segregation Of Duties - This comment has not been corrected and is repeated in the current year.

The Sheriff's Office Should Place Restrictive Endorsement On Checks - This comment has not been corrected and is repeated in the current year report as a compensating control.

The Sheriff's Office Should Improve Internal Controls Over Gasoline Purchases - This comment has not been corrected and is repeated in the current year.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Trisler, Mercer County Judge/Executive  
Honorable Ralph Anderson, Mercer County Sheriff  
Members of the Mercer County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Mercer County Sheriff for the year ended December 31, 2005, and have issued our report thereon dated September 14, 2006. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mercer County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff's Office Should Improve Internal Controls Over Gasoline Purchases

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Mercer County Sheriff's financial statement for the year ended December 31, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
September 14, 2006

